Full-year results 2012

Results Highlights

Q: You're reporting year-end results today. How would you characterise them? What were the highlights?

A: Well, being in the journey for six years, we continue to make good progress. We have been busy in the UK North Sea, whether it has been Clair Ridge or other projects which we have been doing. In the Gulf of Mexico, where we have much more engagement than we had in the past, and we have been winning new contracts, including the KNPC, which is a project management consultancy for a new refinery in Al Zour.

We have been doing Gulf War remediations with KOC. We have been winning a lot of work when it comes to renewable energy, whether it is wind farms, solar farms, whether it is in Canada or in the US. We continue to also invest in our growth. In the year, we invested in Kromav in Brazil. It's a fantastic possibility for us to add resource on the pre-salt basin, but also we invest in our nuclear ability and nuclear activities. We have also made investments in Unidel in Australia as an environmental business which is serving the oil and gas industry.

But as we move in the world, and as the world is changing, we see that more and more is getting important that we working through joint ventures. And the way we see, for instance, the Norwegian North Sea, or the Arctic, it needs to be delivered through joint venture agreements, and that's why we have a joint venture agreement and collaboration with Aibel. But the same situation is also applicable for Asia and the Middle East, and that's where we have come together with Samsung in order to be able to address that market.

It's a great story and great work which we have been doing there. And as a result of all these investments and all these customer relationships which we have been building up, the revenue is up 28%, and even *when* you split up the currency, the acquisitions, the incremental procurement, you will be having a 12% increase. The average number of employees has increased 10%, all across our regions. The EPS is up 14%. Today, it's at 80.4p.

We have been able to generate good cash. We are at 309m for the year. This is 16% up from the last year, and it has a 93% cash conversion. We have strong cash performance, and based on that, the Board has been recommending that we should increase our dividends for the year by 20%.

Q: Let's look at the restructuring. What's been the impact of that so far? What advantages do you expect it to bring?

A: The new structure is more a simplified structure. It has a greater focus on collaboration to be able to foster the growth. Collaboration is very important in order to be able to push the growth of all our four market leads, whether it is oil and gas, whether it is mining, whether it is clean technologies, investment and infrastructure, in all the three regions. The aspiration which we have, we want to get a more and better balance, positions, not only in the US and not only in Canada, not only in the UK, but across the world.

This is not about changing the strategy. It is changing the tactics, bringing a sense of urgency in the organization. The performance has been good, and we are very happy and very proud about it, but it is like riding a mountain bike. When you're riding on a terrain, you always need to have the right gear on the right slope, and that's exactly what we are doing.

Dream with me, wouldn't it be great *if* AMEC actually has equal positions in Americas, in Europe and also in the growth regions? That would be great.

Q: So where do you see the outlook? Is growth as strong as you envisioned three months ago?

A: We continue to expect revenue growth in 2013, and that's even with ignoring the whole procurement part. The margins, of course, they are going to improve gradually, so what do we see out in the market? The conventional oil and gas, which has been very strong in 2012, this is expected to be strong also in 2013. We do see that the oil sands are going to go slightly down, and we see, of course, softening in the mining industry.

We see also Australia is changing to what it was before, but I think what is very important is our business model. We have a low-risk business model. Most of our contracts are on a cost-plus basis, or on cost-plus against reimbursable and KPIs, and this is a model which is totally different from the others' models which are out in the industry. And because of this model, you don't have any sleepless nights.

Q: Now, you say you expect conventional oil and gas to remain strong, but what's your outlook for your nuclear business?

A: AMEC is involved in three sectors on the nuclear operation. One is being the new build, two being the reactor-support activities and three being the shutdowns and the decommissioning. Much of our revenues are actually coming out from the reactor-support activities, as it is there we have a good position in the UK. We have enhanced that position through the acquisitions which we have done of 600 people in 2012.

On the new build, we have, of course, the position in the UK and the relationship which we have with EDF for the future buildup in the UK. We have a good position in Canada, and therefore we are, of course, in discussions with OPG and Bruce Power for the new build opportunities. We have positions in South Africa and also in Eastern Europe for other supports of activities.

When it comes to the shutdowns and decommissioning, we are very happy and proud to be members of the joint venture of NMP, who will continue to support our customer -- NDA in this case, on the Sellafield decommissioning. So our view on the nuclear is strong, and that business is going to continue.

Financial Performance

Q: Why have you changed the basis on which you report?

A: Well, what we've done is to change the way we manage the business. We've moved from an old divisional structure to a new geographic structure, the aim being to drive growth through the markets, through the geographies. And because we've changed the management reporting structure, obviously, we've changed the way we report internally, and the accounting rules say you have to report externally the way you report internally, the way you manage the business. It's a change that's forced upon us because of the way we've chosen to manage the business.

Now, we appreciate that that makes it quite hard in some instances to follow the trends within the business to see what's going on. So what we've done today, is as well as present the 2012 numbers in the old structure, we've also presented them in the new structure that we'll use going forward. And over and above that, we've restated 2010 and 2011 so that you get a full track, a full tread, the history, if you like, of the new geographic structure, with the new market overlays as well. So, hopefully, we've provided clarity on the business and insight going forward.

Q: Your margin at 8% is 120 basis points down from 2011. What happened, and do you expect it to grow going forward?

A: You cut the answer to that in different ways. In the first instance, of that gap of 120 basis points, 60 basis points, half of it, is due to incremental procurement activity, so we've taken on procurement activity of over GBP300m in addition to what we normally do. This is activity packaged up with high-quality engineering work for some of our key customers in the Americas. Now, it boosts our revenue, but, actually, there's no margin from that, so it has a dilutive impact on our reported margins. And as I say, half of the differential between 9.2 and 8 is a consequence of that procurement activity.

Now, if we look at the rest, it's perhaps best to look at it by geography, so if I look in the Americas, margins have fallen about 180 basis points to 9.3%. So the majority of that fall in margin in the Americas is due to the procurement, because that's where the procurement is. So of that 180 basis points fall, 140 of that is due to that procurement activity. The remaining 40 is a consequence the slower schedule on the Kearl projects and the reduced profit take, as we discussed at the half year, offset by significantly improved margins in the environmental business in North America, on the back of good overhead efficiencies following the MACTEC integration.

So if we look at Europe now, margins in Europe are pretty much in line with where they were last year. There's a small decline as a consequence of Sellafield profits coming down a little, but overall, Europe is pretty much in line with where it was.

The big reduction is in the growth regions, where we've had a fall of over 400 basis points, down to around 6%. That is a consequence of activity in Australia, where in 2011 we had very high profits as a consequence of successful claim settlements from the GRD Minproc business we acquired back in 2009, and successful project outturns as well. In 2012, with a softening market in mining, we've been much more cautious on our profit take, and that explains the difference.

You asked about margins going forward. Going forward, we anticipate a pickup again in margins, as opposed to the fall we've had this year. Partly, that will come from reduced procurement activity. We expect procurement activity in 2012 to be down some GBP200m, and that will obviously drive headline margins up.

But over and above that, we expect gradual cost efficiencies from the integration of the businesses within the new geographies, and that will help to drive steady improvement in margin over 2013 and 2014, also.

2013 and beyond

Q: So how do you see the shape of 2013? What are the key performance drivers, as you see them?

A: Well, let's break that down, and let me first of all look at revenue. And, again, let me strip out all the funny procurement things and acquisitions. I look at core, underlying revenues from the businesses. In conventional oil and gas, we see a very strong outlook. That business has been growing, that market has been growing, by double digits, over 10% for the last two or three years or so, and we expect that to continue, so a very strong outlook.

On unconventional oil and gas, principally the oil sands in Canada, it's a different story. We expect a material decline in revenues from that business, principally to do with the phasing of the Kearl project, which is starting to wind back.

In clean energy and environment and infrastructure, we do expect growth, albeit at pretty modest levels, I have to say. Mining, clearly, it's a softer market than it was, so we're cautious there and expecting more stability as opposed to the growth we've had in recent years. We remain pretty cautious, too, on Australia in general, where the market is pretty soft.

So overall, underlying, we would expect growth for next year of low to mid-single digits before the impact of procurement, which, again, we expect to be down some GBP200m, as I have said. But obviously we expect those numbers to be boosted by the effects of the acquisitions we made in 2012, so it's Serco nuclear business in the UK, Unidel in Australia and Kromav in Brazil.

If we look at margins, margins we expect to gradually improve. I've already commented on that, so with the reduction in the procurement activity and cost efficiencies from integration within geographies, we do expect to see gradual margin improvement going forward. And then, of course, in 2013, we'll have the accretive impact of the share buyback to come through, and that will help us to move towards achieving our target of 100p per share, which we expect to get, just to remind you, ahead of 2015, which was our original target.

Q: So what are the key risks to your 2013 forecast? How concerned are you about customers' expenditure plans?

A: Well, markets are a little softer in general. I think that's how I'd summarize it. But oil and gas, conventional oil and gas, remains very strong. As I said, we expect double-digit growth going forward. Our order book remains good at GBP3.6bn. That gives us good visibility going forward, and I think we've got a degree of protection from the diverse nature of the business, across a number of geographies, across a number of markets. We do CAPEX activity, we do OPEX, also a low-risk business model, so I think that gives us a good, secure position.

We also have our new organization, of course, where we've increased collaboration across the group, interface between geographies and markets. The whole rationale for that is to get greater insight into markets and into customers, and that should start to build momentum. And then lastly, I'd say, we are going through a degree of self-help. So I've talked about cost efficiencies already. So when times are a little tougher than they have been, I think we will look at cost efficiencies, and that will help us to move the profit forward. So all in all, I think we're reasonably well placed.

Q: And if we just look at the buyback programme, is that it? Are you done? How will you prioritize the use of cash going forward?

A: Well, let me just wind back a little. I've talked before about our focus on getting to an efficient balance sheet. Now, from this time last year, we've given back some GBP400m to shareholders by the buybacks, so that's a good start to that process. So we've moved from GBP500m of cash on the balance sheet to about GBP100m.

If we look now, it's fair to say that acquisitions are our priority, and we see good opportunity in the marketplace today to enhance our geographic footprint, to enhance our capability consistent with our strategies going forward. And the pipeline for potential transactions is good.

Now, if those potential opportunities don't crystallise or we can't crystallise them at prices that make good sense from a value perspective, then we will consider giving increased cash back to shareholders. We're saying that we've increased our annual dividend this year by 20% as an example of that. But right now, there are no further buybacks planned.

Q: And, finally, when will you update your 2015 targets?

A: We did have a good performance in 2012. Despite the softness in certain markets, we do expect that we are going to have a further growth in 2013. We also continue to expect to achieve on our target, which is greater than 100p before 2015. We have a clear strategy. We have the right people. We are positioned in the right market, and we do expect that we are going to deliver the growth not just for 2015, but also beyond.